

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 NEA-10 IO-10 ISO-00 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /105 W

----- 006330

R 061400Z OCT 75

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 5523

INFO AMEMBASSY DAR ES SALAAM

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY TEHRAN

USMISSION USUN NEW YORK

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ENRG, KE

SUBJECT: KENYAN REACTION TO LATEST OPEC PRICE INCREASE

1. SUMMARY: GOK AND PRESS REACTION TO LATEST OPEC PRICE INCREASE DIRECTED AGAINST ARAB WORLD'S RESPONSIBILITY FOR WORLD-WIDE INFLATION AND RETARDATION OF LDC DEVELOPMENT PROGRAMS. END SUMMARY.

2. IN THG FIRST OFFICIAL GOK REACTION TO OPEC'S 10 PERCENT INCREASE IN CRUDE OIL PRICES, ATTORNEY-GENERAL CHARLES NJONJO ACCUSED ARAB NATIONS OF "MILKING" THE LDC'S. SPEAKING IN A PARLIAMENTARY DEBATE OCTOBER 3 OVER A PROPOSAL TO EXTEND

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PAY INCREASES TO LOW-RANKING CIVIL SERVANTS, NJONJO ATTRIBUTED SPIRALING WORLD-WIDE INFLATION AND RESULTING ECONOMIC SUFFERING IN THIRD WORLD TO REPEATED OIL PRICE HIKES. IN A RELATED REMARK, NJONJO ALSO WARNED KENYA'S ILLEGAL CHARCOAL TRADERS THAT THEY WERE CONVERTING THE COUNTRY INTO A TREELESS WASTELAND--A "DESERT WITHOUT OIL" FOR THE BENEFIT OF SAUDI ARABIA, WHICH RECEIVES MUCH OF THE CHARCOAL SMUGGLED OUT.

3. THE ATTORNEY-GENERAL'S ATTACKS WERE ECHOED IN A DAILY NATION EDITORIAL OCTOBER 4 BLAMING ARABS FOR KENYA'S PERSISTENT INFLATION. ARAB COUNTRIES WERE CRITICIZED FOR EXPLOITING NATURAL RESOURCES FOR MONETARY GAIN RATHER THAN USING THEM "TO CREATE A BETTER WORLD". ACCORDING TO EDITORIALIST, LAW OF SUPPLY AND DEMAND SHOULD DETERMINE JUST PRICE OF CRUDE AND REFINED OIL. THE NATION CONCLUDED BY ACCUSING ARABS OF "BETRAYING" THIRD WORLD AND RENEGING ON PLEDGES TO PURCHASE AFRICAN COMMODITIES AND CONTRIBUTE TO DEVELOPMENT PROJECTS. LDC'S SHOULD "RECONSIDER" RELATIONS WITH THOSE ARAB COUNTRIES UNSYMPATHETIC TO PLIGHT OF POORER COUNTRIES.

4. GOK HAS NOT YET ANNOUNCED NEW RETAIL PRICE SCHEDULE FOR PETROLEUM PRODUCTS, BUT JUDGING FROM PAST EXPERIENCE AND STATED POLICY OF PASSING ADDITIONAL COST ON TO CONSUMER, PRICE ADJUSTMENTS WILL PROBABLY INCORPORATE CLOSE TO FULL 10 PERCENT. HARDEST HIT WILL BE TRANSPORTATION SECTOR, UTILITIES, AND MANUFACTURING. MOREOVER, LIKELY INCREASES IN COMMERCIAL AIR FARES WILL BITE INTO KENYA'S LUCRATIVE TOURIST INDUSTRY. WHILE HIGHER IMPORT DUTIES ON LARGE MOTOR VEHICLES AND MOTOR FUEL IMPOSED LAST JUNE SHOULD HAVE ALREADY BEGUN TO DAMPEN 1975 OIL CONSUMPTION, A MAJOR BURDEN WILL FALL ON MANUFACTURERS SEVERELY CONSTRAINED BY OFFICIAL PRICE FREEZES WHICH CONTROL THEIR OWN PRODUCTS.

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5. DESPITE GOK'S COMMENDABLE EFFORT DURING 1975 TO REDUCE OUTLAY FOR IMPORTS AND RESERVE DWINDLING RESERVES OF FOREIGN EXCHANGE, A SIGNIFICANT DETERIORATION OF THE BALANCE OF PAYMENTS CANNOT BE AVOIDED. CONSERVATIVE ESTIMATES WOULD ADD US\$25 MILLION TO ANNUAL COST OF PETROLEUM IMPORTS, WHICH ALREADY

ACCOUNT FOR 25 PERCENT

OF TOTAL VALUE OF KENYA'S IMPORTS. EXPORTS OF REFINED OIL PRODUCTS, SECOND IN IMPORTANCE ONLY TO COFFEE, ARE NOT EXPECTED TO INCREASE IN VOLUME BUT COULD EARN 12 PERCENT MORE IN 1975.

6. IN ANTICIPATION OF OPEC'S OCTOBER PRICE HIKE, GOK REQUESTED AN IMF OIL FACILITY DRAWING OF SDR 24.8 MILLION IN SEPTEMBER, WHICH REPRESENTS HALF OF COUNTRY'S MAXIMUM 1975 ENTITLEMENT.

7. COMMENT: CONSIDERING SERIOUS ECONOMIC IMPACT OF OPEC'S NEWEST PRICE RISE, RELATIVELY SAVAGE PUBLIC REACTION FROM GOVERNMENT AND PRESS IS NOTEWORTHY. HOWEVER, TONE OF CRITISM REFLECTS GROWING DISILLUSIONMENT PRIVATELY EXPRESSED BY MANY KENYANS TOWARDS OIL-RICH THIRD WORLD BRETHREN, WHOSE ANTICIPATED GENEROSITY WAS NEVER REALIZED EITHER IN A PREFERENTIAL PRICING POLICY OR DEVELOPMENT GRANTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PRICES, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NAIROB08758
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750346-0428
From: NAIROBI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751078/aaaacsbt.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2003 by izenbei0>; APPROVED <04 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KENYAN REACTION TO LATEST OPEC PRICE INCREASE
TAGS: ENRG, KE, OPEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006